

LTE: We must act now for best return on water transfer

May 06, 2010

Michael Huber

The Indianapolis Star, Indy.com

Mayor Greg Ballard's proposal to transfer the water and wastewater systems to the nonprofit charitable trust Citizens Energy Group is one of the most transformational proposals in the city's history and is yet another example of the mayor's determination to protect against further rate and tax increases.

There is widespread agreement that we must act. First, rates on the systems are increasing dramatically — as much as 400 percent on the wastewater system. Second, as evidenced by the dilapidated state of many of our roads and sidewalks, the city has not adequately invested in our basic infrastructure for more than a decade. Third, an independent consultant's review and the professional regulators at the Indiana Utility Regulatory Commission confirm what most of us know: The management structure of the waterworks must be radically overhauled.

In the face of these challenges, Mayor Ballard identified opportunity. The efforts we have employed for two years to balance the city budget, while cutting income taxes and supporting the property tax caps, should be brought to bear with the city's utilities. The answer: Consolidate similar functions to find efficiencies to improve service and reduce cost.

After months of deliberation, in July 2009, we asked utility managers from all over the world to provide us with specific ideas to help the city save hundreds of millions of dollars on the management of the systems. Mayor Ballard laid out the rules: find a way to maximize ratepayer savings, free up hundreds of millions in funds to fix our crumbling infrastructure, and create local jobs.

Through a robust and transparent process, we identified that Citizens was best positioned to take the politics out of running our utilities, achieve the most annual savings through the combination of overlapping functions across the utilities, and (because of those savings) make the highest upfront payment to the city to invest in infrastructure.

We could have proposed selling the systems to a third party but did not because such sales are typically financed with future rate increases. We could have proposed to continue the status quo, but did not because of the staggering rate increases and the problems at the Department of Waterworks. Instead, Mayor Ballard proposed a transfer of the systems to the public charitable trust because of Citizens' long-term stability and position to maximize annual savings across five public utilities — water, wastewater, gas, steam and chilled water — instead of two.

As a result, utility rates will be mitigated more than 25 percent and the city unleashes \$425 million to be invested in the most critical infrastructure needs.

There is much debate about how the money should be spent, as there should be. There is some debate about whether ratepayers, who would benefit another 4 percent of savings on top of the 25 percent rate mitigation they receive, should receive all the benefits of the transaction with no upfront payment to taxpayers to invest in infrastructure. There is some debate about how and when money should be made available from the transaction. These are all reasonably debated.

Yet, we wouldn't have the privilege of that debate if not for Mayor Ballard's proposed solution to protect ratepayers and taxpayers. No other option has been proposed that exceeds the value,

whether to ratepayers or taxpayers. Some suggest we should just increase rates and taxes. We flatly reject that. There are pros and cons and risks and rewards with this proposal, but the fundamental points remain: with this proposal we achieve substantial rate mitigation and a substantial investment for infrastructure.

Each day we don't act on this proposal is a day we are projected to pay more than we should for our water and wastewater and live in neighborhoods with streets and sidewalks that are in worse condition than they should be. Instead, with the mayor's proposal, rates increases are mitigated, tax increases prevented, and, according to Department of Transportation estimates, more than 10,000 jobs created.

Mayor Ballard's direction is clear: We must act now to mitigate the rate increases; we must act now to invest in our infrastructure deficit; and we must act now to create jobs and improve neighborhoods. The time to rebuild Indianapolis is now.

<http://www.indy.com/posts/we-must-act-now-for-best-return-on-water-transfer>